

Message Text

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ORIGIN EB-03

INFO OCT-01 SS-14 ADP-00 TRSE-00 COME-00 ARA-10 OPIC-01

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----- 023091

P 061518Z SEP 73

FM SECSTATE WASHDC

TO AMEMBASSY BRASILIA PRIORITY

AMCONSUL SAO PAULO PRIORITY

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E.O. 11652: N/A

TAGS: EFIN, BR

SUBJECT: OPIC INSURANCE OF FORD MOTOR CO. PROJECT

REFS: (A) BRASILIA 5064

(B) SAO PAULO 921

(C) STATE 149655

1. ON SEPTEMBER 10, OPIC'S MANAGEMENT WILL ASK ITS BOARD OF DIRECTORS TO GIVE IT AUTHORITY TO ISSUE POLITICAL-RISK INSURANCE TO COVER NEW FORD MOTOR CO. EXPANSION. TO ASSIST PREPARATION OF DEPARTMENT'S POSITION, YOUR VIEWS
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ARE REQUESTED BY COB SEPTEMBER 7 ON QUESTION OF WHETHER

OPIC SHOULD INSURE FORD INVESTMENT. ASSUME OPIC OFFICER MANSBACH HAS BRIEFED YOU ON PROJECT.

2. FORD MOTOR CO., VIA FORD BRAZIL, S.A., IS UNDERTAKING AN EXPANSION OF ITS EXISTING MANUFACTURING FACILITIES IN BRAZIL IN ORDER TO (A) MANUFACTURE LOCALLY THE MEDIUM-SIZE "MAVERICK" CAR FOR THE LOCAL MARKET, WITH ANNUAL UNIT VOLUME REACHING 65,000 UNITS BY 1976 (PROJECTED INVESTMENT 42 MILLION DOLS APPROX.); AND (B) CONSTRUCT A HIGH VOLUME ENGINE PLANT AND FOUNDRY WITH A BEGINNING CAPACITY IN 1974 OF 200,000 ENGINES DESTINED FOR THE MAVERICK AND OTHER LOCAL REQUIREMENTS, AND FOR EXPORT PRIMARILY TO SATISFY FORD REQUIREMENTS IN OTHER LATIN AMERICAN MARKETS AND IN EUROPE (PROJECTED INVESTMENT 110 MILLION DOLS APPROX.). ON BASIS OF INFORMATION SUBMITTED BY FORD, OPIC MAINTAINS THAT: (A) THE NEW PROJECTS WILL RESULT IN 4000 NEW JOBS AT FORD BRAZIL AND 14,000 NEW JOBS WITH BRAZILIAN SUPPLIERS; (B) DURING THE FIRST FIVE YEARS, THE PROJECTS WILL GENERATE AN ANNUAL NET FOREIGN EXCHANGE SAVINGS FOR BRAZIL OF 6.9 MILLION DOLS; (C) THE GOB WILL RECEIVE, OVER THE FIRST FIVE YEARS, 85 MILLION DOLS IN NEW REVENUES; AND (D) BASED ON PRELIMINARY DATA, OF A POSSIBLE 210 MILLION DOLS IN TOTAL INVESTMENT (INCLUDING 60 MILLION DOLS IN LOCAL FINANCING), 100-130 MILLION DOLS WILL BE SPENT IN BRAZIL (AND UP TO 75 MILLION DOLS IN THE US).

3. IN ADDITION TO LOCAL BORROWINGS, FORD EXPECTS TO INVEST 40 MILLION DOLS IN EQUITY, TO BORROW AND RECEIVE LOAN GUARANTEES FROM EXIM OF 70 MILLION DOLS, AND TO LEND OR GUARANTEE OTHER PRIVATE LENDING OF 40 MILLION DOLS, FOR A TOTAL INVESTMENT OF 140-150 MILLION DOLS. THE INSURANCE PROPOSAL CALLS FOR INITIAL, 12-20 YEAR COVERAGE (LAST 8 YEARS ONLY IF OPIC CONSENTS) OF 30 MILLION DOLS EQUITY INVESTMENT AND OF UP TO 20 MILLION DOLS FUTURE RETAINED EARNINGS ON THE EQUITY. AT SOME LATER DATE OPIC'S MANAGEMENT MIGHT ASK ITS BOARD TO AUTHORIZE COVERAGE OF 40 MILLION DOLS OF FORD LOANS (OR OF OTHER PRIVATE LENDERS), DEPENDING UPON IMPACT ON OPIC'S CONCENTRATION OF EXPOSURE IN BRAZIL AT THAT LIMITED OFFICIAL USE

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TIME. OPIC'S PROPOSAL FOR INSURING THE FORD INVESTMENT CONTAINS SEVERAL RISK-REDUCING (TO OPIC) FEATURES, THOUGH NOT DECLINING COVERAGE OR COINSURANCE, BECAUSE, OPIC BELIEVES, FORD ALREADY HAS APPROX. 40 MILLION DOLS OF UNINSURED EQUITY IN BRAZIL.

4. IN CONTRAST TO ITS NORMAL PROCEDURES, MANAGEMENT IS PRESENTING THE INSURANCE PROPOSAL TO ITS BOARD BEFORE

(A) FORD HAS FILED FORMAL APPLICATION (ONLY PRELIMINARY APPLICATION HAS BEEN FILED), AND (B) FORD HAS SOUGHT GOB APPROVAL OF PROJECT FOR INSURANCE PURPOSES. OPIC WANTS EARLY READING FROM ITS BOARD ON WHETHER TO UNDERTAKE EXTENSIVE STAFF WORK ON PROPOSAL FOR INSURING A KIND OF PROJECT FOR WHICH FINAL BOARD SUPPORT (FOR INSURANCE) IS UNCERTAIN, I.E., INVESTMENT BY HUGE US MULTINATIONAL CORPORATION IN ADVANCED AUTO AND ENGINE ASSEMBLY FACILITY IN A RELATIVELY DEVELOPED REGION OF A STABLE COUNTRY ATTRACTING SUBSTANTIAL INFLOWS OF CAPITAL IN A RAPIDLY GROWING ECONOMY WITH A HEALTHY CLIMATE FOR FOREIGN INVESTMENT.

5. REQUEST YOUR VIEWS ON FOLLOWING QUESTIONS. (WE RECOGNIZE THAT ONLY FORD IS ABLE TO ANSWER FULLY QUESTIONS (A) AND (B).)

(A) DO YOU HAVE ANY INDICATION THAT, IN ABSENCE OF POLITICAL-RISK INSURANCE, FORD WOULD NOT UNDERTAKE THIS INVESTMENT?

(B) DO YOU HAVE ANY INDICATION THAT HAVING POLITICAL-RISK INSURANCE WOULD ENABLE FORD TO RESTRUCTURE ITS INVESTMENT IN ANY WAY THAT WOULD MAKE THIS INVESTMENT MORE ACCEPTABLE TO GOB OR POTENTIALLY LESS RISKY POLITICALLY?

(C) WHAT REACTION WOULD YOU EXPECT FROM GOB ON QUESTION OF OPIC'S INSURING FORD INVESTMENT? WOULD GOB REGARD INSURANCE OF INVESTMENT AS INTEGRAL PART OF ITS DEVELOPMENT PLAN?

(D) HAS GOB SOUGHT TO PERSUADE FORD TO LOCATE ITS LIMITED OFFICIAL USE

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INVESTMENT IN ANOTHER, LESS DEVELOPED AREA OF BRAZIL?

(E) DOES EMBASSY HAVE ANY OTHER COMMENTS ON, OR ANY OBJECTIONS TO, OPIC'S INSURING FORD EXPANSION? RUSH

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